



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR APRIL 22, 2005

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia is producing more than 9.5 million bpd and is ready to increase its production further in the third quarter. He said Saudi Arabia is willing to pump to its full 11 million bpd capacity, regardless of its official OPEC quota. He said Saudi Arabia's current production is sufficient to meet customers' demands. He added that there is no shortage in stocks and added that OECD stocks increased to 2.6 billion barrels in March from 2.59 billion barrels in February. According to the Wall Street Journal, Saudi Arabia's Oil Minister believes \$50/barrel for US crude is too high. He denied stating that \$40-\$50/barrel was a fair price for oil. He also stated that OPEC would not return in the foreseeable future to its practice of targeting a

Market Watch

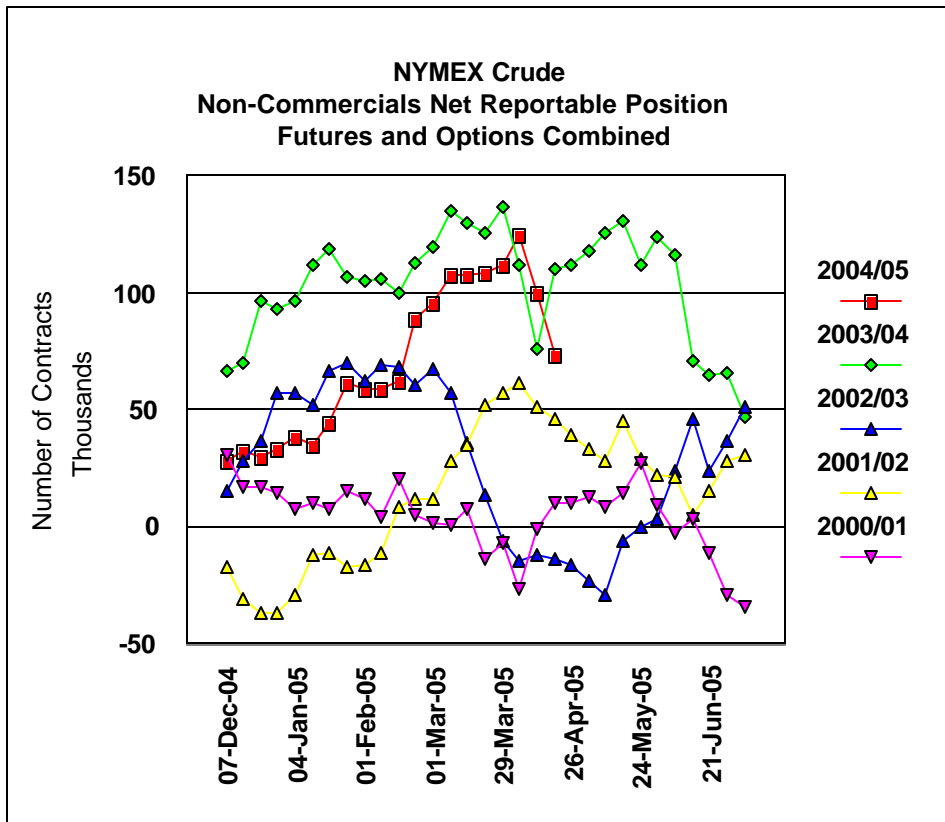
Traders stated that European gas oil prices are under pressure due to a flood of imports from the US Gulf and weakening seasonal demand. Shipping fixtures show about 15 cargoes or over 550,000 tons of gas oil and jet fuel heading east across the Atlantic this month.

Ukraine's government has reached an agreement with Russia's Lukoil on cutting fuel prices for May and April. Lukoil agreed to sell its oil products via its distribution network in Ukraine at government recommended prices. The agreement with Lukoil follows a similar deal with TNK-BP on Thursday.

Russia's Energy Minister Viktor Khristenko said the final details of the merger between Russia's gas monopoly Gazprom and state owned oil company Rosneft still have not been agreed to. There were unconfirmed reports that the government is about to depart from the plan it previously announced regarding a merger between Gazprom and Rosneft. Separately, he stated that the first stage of construction of the Taishet-Nakhodka oil pipeline will cost \$6 billion and take a minimum of two and a half years to complete. Japan's Economic Minister Shoichi Nakagawa said that Japan will finance the construction of the oil pipeline if its endpoint was the Pacific coast. The pipeline is expected to begin in Taishet and run to the Pacific port of Perevoznaya. The Chinese government has reportedly lobbied for the proposed Far East pipeline to lead to the refinery city of Daqing. However all recent Russian declarations have indicated that the link to Daqing would be no more than a secondary spur from the main pipeline route. The commercial launch of the pipeline will likely be no less than seven years.

The head of Venezuela's tax agency, Seniat said a tax increase for oil projects in Venezuela became effective on Monday for all oil operating agreements. The government increased taxes on companies from a 34% preferential rate to a 50% rate. The increase only applies to 32 operating agreements. In response, the oil companies said they were not informed of the tax increase starting this week. If PDVSA loses investment from foreign oil operations, analysts warn Venezuela will have difficulties meeting its target of nearly doubling output to 5 million bpd by 2009.

Europe's first futures contract for emissions was launched on Friday. The European Climate Exchange's Carbon Financial Instrument started trading on the International Petroleum Exchange. It will allow users to lock in prices for ECX CFIs delivered at set dates. Each contract is equivalent to 1,000 metric tons of carbon dioxide and listed contracts will expire each quarter between Q4 2005 and Q1 2008. Counter parties can choose to settle trades financially or take physical delivery, in which case the units will be EU Allowances, delivered to the buyer's national registry account.



specific range of oil prices.

Meanwhile, OPEC's Secretary General Adnan Shihab Eldin said OPEC is considering replacing its former price band with a price floor which OPEC would defend but no price ceiling. He said one option being considered was to replace the ceiling with a clearer policy intention by using other indicators such as stocks, fundamentals, spare capacity and demand which would determine its production policy.

Shipping sources stated that Iraq's crude exports through Turkey have not yet resumed despite a pledge by Iraq to restart

pumping via the northern pipeline this week. Iraqi officials had planned to resume pumping this week at a rate of 400,000 bpd along the pipeline to the Turkish port of Ceyhan. Separately, insurgents attacked an oil pipeline that feeds a power station in the northern Iraqi town of Baiji. The pipeline does not pump oil for exports but it is a key domestic line.

On Thursday, the US House passed an energy bill that would open up Alaska's Arctic National Wildlife Refuge to energy development. The energy bill would not have any immediate impact on energy prices. However supporters said the bill aims to put the US on the general path towards increased domestic production and energy efficiency starting in about two years. A version of the bill must still win approval from the Senate. The Senate is expected to move forward on their version of energy legislation in May.

Allegro Energy Consulting reported that the mandating a sharp cut of sulfur in heating oil, now under discussion in several eastern US states, would set the stage for severe price spikes. It said a sharp reduction of sulfur content in middle distillates would deplete an already tight supply pool, especially as home heating oil users compete with transport companies seeking ultra low sulfur diesel. It said that even though the EPA has not ordered refiners to lower the maximum sulfur content of heating oil from the current 5,000 ppm, some state regions are proposing reductions.

Refinery News

Valero Energy Corp said work on its coking units at its 275,000 bpd Aruba refinery in September will last 28 days. The cokers each have a capacity of 32,000 bpd. The maintenance work will also include work on its kerosene hydrodesulfurization unit and the distillate fractionator.

The catalytic reformer unit at PDVSA's 200,000 bpd Puerto La Cruz refinery has been restored following a shutdown last week. The reformer unit is operating at normal levels. Meanwhile, PDVSA

is also working to restore the flexicoker unit at its Amuay refinery following a power outage at the plant late last month.

Production News

Baker Hughes reported that the number of rigs searching for oil and gas in the US fell by 5 to 1,343 in the week ending April 22. The number of rigs searching for oil in the US was unchanged at 173 while the number of rigs searching for natural gas fell by 5 to 1,170.

Shipping sources said Turkish shipping authorities halted traffic for over 12 hours through the key Dardanelles straits after a tanker ran aground in the channel. Traffic was restored on Friday. There were 10 tankers awaiting passage northbound and three were awaiting passage southbound.

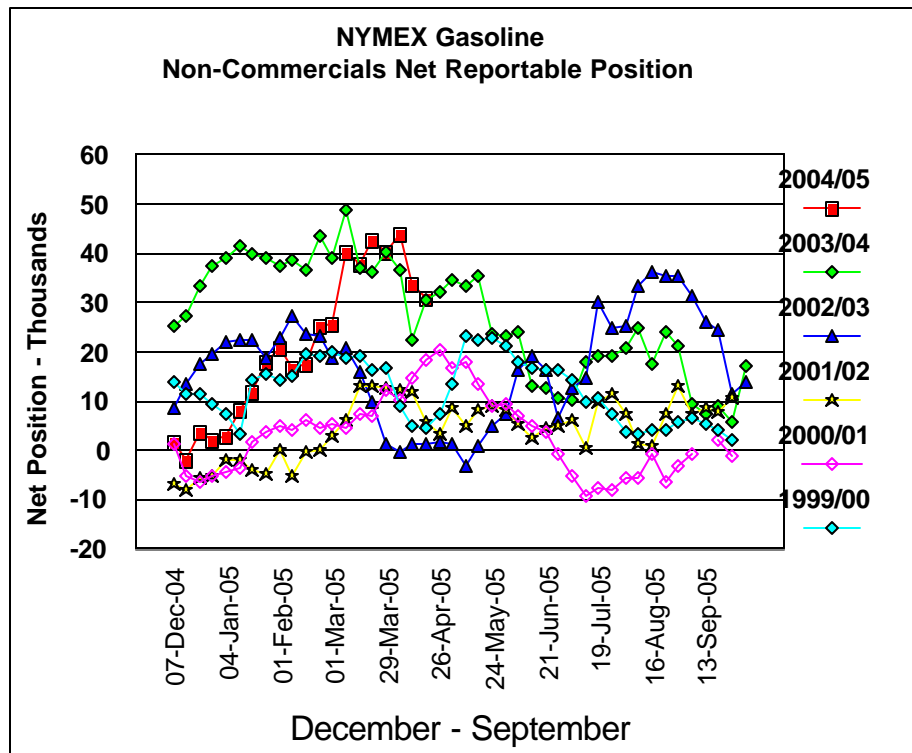
Norway's government approved plans for offshore oil developments at the Fram East and Volve fields with combined plateau production seen at 95, 000 bpd. Output from Fram East is seen at 45,000 bpd while Volve is estimated to reach maximum production of 50,000 bpd. Fram East is estimated to contain 60 million barrels of oil and 2.9 billion cubic meters of gas while the Volve field is estimated to contain 72 million barrels of oil and 1.5 billion cubic meters of gas.

Norway's DNO is optimistic it will find oil in the little explored Kurdish area of northern Iraq where it may begin drilling this year. DNO still needs approval from Iraqi officials before it can begin work at its north Iraq prospect. It said it the risk is not finding oil but rather the political arrangement. It is one of the first western oil companies to start new oil projects in post war Iraq.

Russia's President Vladimir Putin said during a meeting with BP's CEO Lord Browne that the decision to establish TNK-BP was right. They did not discuss back tax claims against TNK-BP in Russia after Russian tax authorities hit TNK-BP with a \$1 billion demand for back taxes. Lord Browne was also expected to ask Putin for clarification on the rules for foreign investors in Russia's oil sector. According to planned changes, companies with more than 49% foreign ownership will be barred from auctions for certain oil fields, which could terminate TNK-BP's ambitions to explore in Russia.

Meanwhile, TNK-BP plans to exploit more energy deposits in Sakhalin Island off Russia's Pacific Coast jointly with Rosneft in areas other than Sakhalin-4 and Sakhalin-5.

Oil exports via Transneft is expected to be 1.2 million tons below target in April. An



official at Transneft said oil exports to Belarus are expected to be 500,000 tons below target, to Hungary 168,000 tons below target, to Germany 175,000 tons below target to Ukraine's Odessa refinery 242,000 tons below target and to Ukraine's Yuzhny port 115,000 tons below target.

Polish and EU officials stated that a feasibility study on extension of the Odessa-Brody pipeline to bring Caspian oil to Poland and Western Europe will be ready for September. Aside from providing alternative crude oil supplies for Poland and the EU, the pipeline will also increase environmental security contributing to less tanker traffic in the Bosphorus Strait. The pipeline has remained idle amid disputes over whether to accept oil from Russia or from other countries.

Traders stated that China's diesel and gasoline export boom is expected to extend into its third month in May as rising domestic production outpaces easing demand growth. An increase in sales abroad made China a net exporter of diesel in March, the first time since late 2003, with first quarter shipments up 66% on the year to 18,000 bpd. Domestic distribution officials said the export boom helped to thin diesel stocks from their high levels earlier this year but there were no alarming signs of shortages. Also record refinery production and slowing car sales have led to an increasing surplus of gasoline in China, increasing exports by 57% to 151,000 bpd in the year through the first quarter. Meanwhile, PetroChina plans to cut May shipments to 150,000 tons from 300,000 tons in April while West Pacific Petrochemical Co keeps its exports steady at about 120,000 tons.

Platts reported that several independent refiners in China who crack straight run fuel oil to produce higher value lighter products are battling negative margins of up to Yuan 540/metric ton or \$10/barrel because their feedstock import costs have increased while government set domestic sales prices remain stagnant. Several refiners have decided to shut their plants for maintenance.

Thailand's PTT PCL reported that the country's total product consumption increased by 6.6% on the year to 776,000 bpd. Thailand's total petroleum demand increased by 10.2% to 1.221 million bpd. Its crude imports increased by 3.3% to 791,900 bpd.

Korea National Oil Corp said South Korea's crude oil imports increased in March, helping refiners build commercial inventories to well above year ago levels even as they increased operations to meet increased domestic demand. It consumed 2.34 million bpd of petroleum products in March, up 7.9% from a year ago. Crude oil imports into South Korea increased to 2.59 million bpd, up about 80,000 bpd from February and up 29% on the year. Total commercial inventories in South Korea increased to 68.344 million barrels at the end of March, up 7% from the end of February and about 14% more than a year ago. Crude oil inventories increased to 20.816 million barrels. It stated that with higher domestic oil demand, South Korea was forced to scale back export of oil products with shipments down to 621,000 bpd in March compared with 640,000 bpd in February.

Market Commentary

The oil complex ended the session higher once again in follow through strength seen in overnight trading after the markets were well supported by the refinery news during Thursday's session. The oil market extended Thursday's gains mostly on technically triggered buying. It gapped higher as it opened up 42 cents at 54.45 and traded to a high of 55.05 early in the session before further buying pushed the market higher. It breached its resistance at 55.25 and traded to a high of 55.70, where it settled in a sideways trading range. However the market found further buying which pushed it to a high of 55.90 before it retraced some of its gains ahead of the close. It settled up \$1.19 at 55.39. Volume in the crude was good with 213,000 lots booked on the day. The market settled sharply higher despite Saudi Arabia's statements that it could produce at its capacity of 11 million bpd, regardless of its OPEC production quota if needed. The comments did little to pressure the market lower. Meanwhile, the gasoline market settled up 3.23 cents at 165.23 as it remained supported following the

reports of the refinery problems on Thursday. The market gapped higher from 162.40 to 162.70, its intraday low and never looked back. The market rallied to a high of 165.20, where it held resistance for much of the day as it traded mostly sideways from 164.00 to 165.20. The May gasoline contract however breached its high late in the session and posted an intraday high of 165.80 before it retraced some of its gains ahead of the close. The heating oil market also opened at its intraday low of 153.50 and never looked back. It rallied to a high of 155.00 before further buying later in the session pushed the market to its intraday high of 155.60. It remained well supported amid the strength in crude and gasoline markets. It settled up 1.11 cents at 154.51. Volumes in the product markets were good with 58,000 lots booked in the gasoline and 35,000 lots booked in the heating oil market.

The latest Commitment of Traders report showed that non-commercials in the crude market continued to cut their net long positions, by 26,999 contracts to 32,651 contracts in the week ending April 19th. They cut their total long positions by 29,238 contracts to 125,300 contracts on the week. The combined futures and option report also showed that non-commercials in the crude market cut their net long positions by 25,843 contracts to 73,742 contracts on the week amid the market's recent sell off. However non-commercials in the heating oil market reversed their position once again and are now net long 2,358 contracts compared with the previous week's net short position of 1,831 contracts. Meanwhile non-commercials in the gasoline market cut their net long positions by 2,580 contracts to 31,148 contracts on the week. However given the market's recent rally, non-commercials have likely increased their net long positions once again.

The crude market next week will be driven by any supportive headlines seen over the weekend. Technically, the market is still seen trending higher. It is seen finding initial resistance at its high of 55.90 followed by more distant resistance at 56.07 and 56.56. Meanwhile support is seen at 55.15, 54.75 followed by its gap from 54.40 to 54.30 and its previous low of 53.00.

Technical Analysis		
	Levels	Explanation
CL Resistance 55.39, up \$1.19 Support	56.07, 56.56 55.90	62% (58.20 and 49.75), Basis trendline Friday's high
	55.15, 54.75 54.40 to 54.30, 53.00	Opening gap, Thursday's low
HO Resistance 154.51, up 1.11 cents Support	155.65, 158.64, 160.40 155.60	50% and 62% retracement (168.30 and 143), Previous high Friday's high
	153.50 149.25	Friday's low Thursday's low
HU Resistance 165.23, up 3.23 cents Support	166.30, 169.40 165.80	Previous highs Friday's high
	162.70 to 162.40 157.00, 155.25	Opening gap (April 22) Thursday's low, Previous low